

# 董事長致股東函

## CHAIRMAN'S LETTER TO SHAREHOLDERS



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### 業績及股息

截至二零一一年六月三十日止，年度之營業額為港幣五十一億六千四百萬元，減少百分之五十七點二。股東應佔純利為港幣五十七億九千二百萬元，下降百分之七十五點四。每股盈利為港幣一元三角三仙，較去年下跌百分之七十六點六。

儘管我們決定不向市場推售住宅單位，但我們的物業租賃業務持續表現理想，租金收入上升百分之十三點五，達港幣五十一億六千一百萬元。來自物業租賃的經營溢利增長百分之十二點六，達港幣四十一億九千四百萬元。

倘扣除重估收益等影響，基本純利下降百分之五十八點九，至港幣二十七億四千一百萬元。每股基本盈利的跌幅相若，減至港幣六角三仙。

### Results & Dividend

Turnover for the year ended June 30, 2011 retreated by 57.2% to HK\$5,164 million. Net profit attributable to shareholders fell by 75.4% to HK\$5,792 million. Earnings per share was HK\$1.33 representing a drop of 76.6% from the previous year.

While we decided not to release residential flats to the market, our property leasing business performed well and recorded a 13.5% increase in rental income to HK\$5,161 million. Operating profit therefrom grew 12.6% to HK\$4,194 million.

When excluding all the effects of revaluation gain, the underlying net profit fell by 58.9% to HK\$2,741 million. Similarly, underlying earnings per share decreased to HK\$0.63.

董事局建議派發末期股息每股港幣五角四仙，與去年相同。雖然我們的股本因去年十一月配股而擴大百分之七，但如獲股東批准，全年度每股股息之總額仍與去年相同。

## 業務回顧

由於管理層認為市況仍未夠熾熱，因此沒有出售香港的已落成單位。結果，溢利只來自物業租賃，這解釋了溢利下降的原因。兩年前，我們也遇到同樣的情況。今次與上趟一樣，投資物業表現良好，幾乎全部在香港和內地的各類物業都錄得理想的增長。

內地業務佔租金總額百分之四十五，其餘來自本港市場。除業務比重較少的香港服務式寓所外，各類物業基本上均維持全部租出。

租金營業額和溢利的升幅與年中時相當接近。租金收入較去年上升百分之十四，其中香港物業上升百分之八，內地物業則上升百分之二十一。本港市場方面，商舖和辦公樓均錄得百分之七的增長，其他物業則上升百分之十五。

上海方面，五星級的上海恒隆廣場之購物商場持續凌厲的增長，升幅達百分之二十八，而四星級的港匯恒隆廣場則有百分之十三的升幅。從手上資料看來，同一批頂級的國際品牌在上海恒隆廣場的銷售額，可能比它們在上海其他商舖高出最少兩至三倍。雖然上海恒隆廣場辦公樓的租金收入略有上升，但市場競爭依然激烈。期望該物業在未來兩年有可觀增長是不切實際的。瀋陽皇城恒隆廣場的營業額符合目標。

香港的租賃邊際利潤升至約百分之八十三，內地則略降至百分之八十。後者是意料中事，因為每當有新項目投入運作時，都會帶來如此影響。瀋陽皇城恒隆廣場的首年盈利貢獻仍然有限，但將有改善，這是業務性質使然。

The Board recommends a final dividend of HK54 cents per share which is the same as the year before. If approved by shareholders, total dividends per share for the full year will remain the same as last year although our capital base has increased by 7% due to the share placement last November.

## Business Review

Because management did not deem market conditions hot enough, we did not sell any completed apartments in Hong Kong. As a result, profit only came from rental which explains the fall. Two years ago we experienced exactly the same. Nevertheless, just like that time, investment properties have performed well with almost all property types in both Hong Kong and the Mainland recording increases at satisfactory levels.

45% of total rent is contributed by the Mainland operation while the rest is from our home market. With the exception of Hong Kong serviced apartments which are insignificant to us, all product types everywhere remained basically full.

Growth rates for rental turnover and profit were very similar to those at mid-year. We received 14% more rents than the year before, with Hong Kong properties coming in at 8% and Mainland properties at 21%. In our home market, both retail and offices turned in a 7% rise while other buildings advanced by 15%.

In Shanghai, the five star mall Plaza 66 continued a fast pace growth at 28% while the four star Grand Gateway 66 increased by 13%. From information at hand, it is likely that the same top brands in the former generate at least two to three times more sales than their other stores in the same city. Although office rents received from Plaza 66 went up slightly, competition remains severe. It would be unrealistic to expect meaningful growth say in the next two years. Turnover at Shenyang Palace 66 met the target.

Rental margin in Hong Kong rose to almost 83% while that on the Mainland fell slightly to 80%. The latter was anticipated since the addition of any new facility will have that effect. Profit contribution for the one year old Shenyang Palace 66 was still limited but will improve. This is the nature of the business.

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

我們已把「港匯廣場」易名為「港匯恒隆廣場」，在日常使用中可簡稱為「港匯恒隆」。這是為了統一品牌和標識，皆因連許多上海市民也不知道，這個深受大眾歡迎的購物商場與尊貴顯赫的上海恒隆廣場實屬同一業主擁有。商譽和品牌資產的一個奇妙之處，是當共用時它們的價值不減反增。由於港匯恒隆廣場正在提升檔次，它與國內人所共稱最具名氣的豪華購物商場掛同一牌號，可說是百利而無一害。

若以每個單位面積的銷售額計算，比較我們旗下上海和香港商場的生產力，可得出有趣的結果。平均來說，上海恒隆廣場的生產力是港匯恒隆廣場的兩倍，而我們在香港的最佳商場物業（位於旺角區）的生產力仍較上海恒隆廣場高出兩倍，但後者的頂級品牌卻屬超高檔次，它們的生產力比我們在香港之最佳商場物業還要好四倍，比客流量最高之一的商場金鐘廊更要好十倍！

我們還可以從另一角度觀察上海奢侈品市場的驚人之處。上海恒隆廣場之購物商場現時每年帶來的銷售額較港匯恒隆廣場高出百分之二十六。但前者的平均客流只是後者的百分之十一，而後者的可出租面積幾乎是前者的兩倍。這說明了兩者的顧客群有很大分別：前者擁有消費力甚高的客群，後者則以大量的購物者取勝。現時港匯恒隆廣場每年有近八千萬人光臨，確實令人為之驚嘆！這可能是上海甚至全國的紀錄創造保持者。

上海市政府衡量商業活動的準則相當獨特，是根據一項物業內所有營商活動所繳交的稅款來計算。舉例，一家在我們其中一座辦公樓設總部的公司，它繳交的所有稅款都會算入這座辦公樓。官方記錄顯示，上海恒隆廣場和它的租戶每年納稅約人民幣二十四億元，而港匯恒隆廣場則超過人民幣十七億元。「恒隆」兩項上海物業每年可提供逾人民幣四十億元的稅收，這確令所有城市的官員訝異。一些其他城市的官員對我說，如果恒隆到當地建立項目，即使繳稅額只是我們在上海繳納的一小部分，他們亦會高興不已。這些數字有助我們在中國建立品牌。

We have changed the name "The Grand Gateway" to "Grand Gateway 66." In daily usage, it can be simply "Gateway 66." This is to unify the brand and the logo, for even many Shanghai residents do not know that this popular mall and the legendary Plaza 66 have a common owner. One marvel of goodwill and brand equity is that not only will they not diminish when shared, they in fact grow. As Grand Gateway 66 moves further upscale, the association with what is considered by many to be the most prestigious luxury shopping center in the country can only help.

It is interesting to compare our Shanghai malls with our Hong Kong shops in terms of productivity defined as sales per unit space. On average Plaza 66 is twice as productive as Grand Gateway 66. Whereas our best retail space in Hong Kong (in Mongkok district) is still two times more productive than the average of Plaza 66, the top brands in the latter are in the stratosphere! They can be almost four times more productive than our Hong Kong best and ten times that of Queensway Plaza, one of our busiest malls in terms of footfall.

Another way to look at Shanghai's amazing luxury market is that the shopping center at Plaza 66 now generates annual sales which is some 26% more than that of Grand Gateway 66 although the latter has almost twice the leasable space. Yet the higher sales is accomplished by a footfall which on average is only 11% that of the bigger facility. That illustrates how different the clienteles are -- one boasts high net worth clients while the other excels in the huge number of shoppers. It is indeed impressive that Grand Gateway 66 now has almost 80 million visitors each year! That may be a record for any mall in Shanghai and perhaps even in the country.

A unique measure used by the Shanghai government to measure commercial activities of a building complex is the tax collected through all activities associated with it. For example, a company with headquarters in one of our office towers will have all the taxes it pays accrued to that complex. Official records show that some RMB2.4 billion of taxes were paid by our tenants and ourselves at Plaza 66 and over RMB1.7 billion at Grand Gateway 66. The fact that "we" can generate more than RMB4 billion of taxes annually from our two Shanghai properties is an astonishment to municipal officials everywhere. Several of them from other cities have told me that they would be pleased if Hang Lung were to build in their city and pay them a fraction of that. Such numbers help build our brand in China.

面積達十七萬一千平方米的濟南恒隆廣場，於二零一一年八月二十六日正式開幕前六個月已全部租出。即使不計入銷售租金（這在新設施來說通常不多），這座巨大的購物商場的初期無槓桿資本回報率，很可能會超越我們過往任何一個項目。瀋陽皇城恒隆廣場開業時的收益率，比不上十多年前我們兩項上海物業，箇中原因我已在去年的致股東函中詳述。如果濟南恒隆廣場的首年表現比瀋陽好出五成，我也不會感到訝異。至於原因，我會留待該座新商場開業及錄得實際數字後再解釋，現時只需說它所有的舖位都以理想的租金租出，勢頭確實可喜。

有些股東也許記得，我們為長沙一幅土地花了約六年功夫，甚至早於二零零六年時因策略需要而宣佈可能達成交易。然而，今年一月市政府拍賣該幅土地，我們空手而還。對我來說，這是個令人失望但不一定可惜的結果。

首先，中標價明顯高於我們所願付的。另一個原因是，我們與市委商討的地積比率較低，而他們最終把地積比率大幅調升，令偌大的可建面積擠在有限的土地上；這須興建多幢辦公樓甚至一座酒店。儘管地塊位於黃金地段，但要把它打造成為享有最高租金的世界級物業將會格外困難。

事實上，在這幅島形地塊上已矗立著三幢高層住宅大廈，從設計角度來看並不理想。這一點我們也許還可以將就，但還有另一個與地塊有關的不確定因素存在。這幅地座落於二千五百年前的長沙古城中心。幾年前，當它毗鄰的地塊被開發時，有大量珍貴文物出土。當時處理這個問題還算容易，但今時不同往日。因此，經考慮所有因素後，我們在投標時恪守紀律。如今事件已告一段落。

這帶出在我而言是過去一年來最關鍵的事，它涉及我在六個月前預測的競爭環境的重大轉變。往後這半年裏發生了更多事情，對我們未來數年的業務或會帶來影響。如果說，一年前最令我花心神的事情是董事總經理的繼任問題，那麼過去十二個月讓我同樣費神

The huge 171,000 sq.m. shopping center Jinan Parc 66 is fully leased up. We achieved that six months ahead of the August 26, 2011 official opening. Even without factoring in sales rent which for a new facility should be minimal, the initial unleveraged gross return on invested capital will likely exceed all our previous experiences. For reasons explained in detail in my letter to shareholders a year ago, Shenyang Palace 66 barely matched the opening yield of our two Shanghai properties when they hit the market over a decade ago. I would not be surprised if Parc 66 will in the first year do 50% better. I will leave the explanation to after the new mall is opened and after actual numbers are in. Suffice it to say here that with all space leased at pleasing rents, the omen is auspicious indeed.

Some shareholders may remember that we have been working on a site in Changsha for over six years. For tactical reasons, we even announced the possible transaction back in 2006. However, in January this year the piece was auctioned by the municipal government and we lost it. To me it was a disappointing but not necessarily a sad outcome.

Firstly, the winning bid was obviously higher than what we were willing to pay. Another reason was that instead of the plot ratio we discussed with the city, it was eventually raised to a much higher level thus cramming a lot of buildable space onto the limited plot of land. Several office towers and perhaps a hotel will have to be built. The top location notwithstanding, it would have become more difficult to design a world class complex which could command the highest rent.

The fact that there are three existing high rise residential buildings on the island site is not ideal from a design perspective. However, we would have been willing to live with them if not for another uncertainty relating to the plot. It sits on what was the original city center when Changsha was founded some 2,500 years ago. When its neighboring piece was developed some time ago, many valuable cultural relics were unearthed. It was a lot easier to deal with such an issue then, but not now. So all things considered, we exercised discipline in our bidding. The chapter is now closed.

This brings me to what I consider the most critical event of the past year. It relates to the serious change in the competitive landscape which I touched upon six months ago. Even more has happened since which may affect our business for years to come. If the change of Managing Directorship exercised my mind the most a year ago, this new market reality has had the same effect

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

的事情是我在下文描述的新的市場狀況。幸好陳南祿先生上任，讓我去年的問題迎刃而解。我相信，今次的困難也會適時獲得解決。

自從南祿決定加盟後，我對他說最重要的任務是在內地買地。如今一年過去，我的看法有了改變。現在看來，我們可能在一兩年內都不會買地。然而，市場或許再次急變，致使我判斷失準（這並非首次）。無論如何，我們仍會繼續洽談數項有潛力的土地購置，否則一旦市況好轉時我們便難有機會達成交易。這正正是我們於二零零九年初的經驗，當時競爭對手甚或賣方即市政府的流動資金枯竭，我們花了好一段時間進行的兩幅土地洽購，瞬間開花結果。

過往我曾撰述內地住宅發展商轉而進軍商業地產市場，並提供了多個原因，這裏不再贅述，只需說許多發展商似乎已認同我們對住宅行業的看法。略舉數例，我們認為這個市場波動性強、缺乏經常性收益、政府干預大及稅率高。

有人說，縱然微不足道，但能促成這個轉變的是所謂的「恒隆現象」。過去數年，內地許多發展商眼見我們的成績便試圖仿效，亦不會因為我們認為很少人會成功而卻步。大型國企旗下的地產企業，以至非政府的大型房地產公司均正加入戰團，在住宅項目以外找尋據點。而近年亦有少數香港發展商在內地商業地產市場轉趨積極，令這個市場進一步擁擠。

然而，遊戲規則出現了變化。今年二月，中央政府宣佈未來五年將建設三千六百萬套保障性住房供出售或出租；單是二零一一年鐵定動工的保障房已達一千萬套。經過多年管理需求失敗後，北京現在決意就供應也一併處理。向私人企業提供大量土地建房是一回事，然而其售價會受政府的土地契約所限制；而由市政府自行建設和銷售住房卻是另一回事。兩者對市場的影響截然不同。

in the past 12 months. The fortunate thing is that my previous problem was most satisfactorily resolved through the coming on board of Mr. Philip Chen. I trust that the present difficulty will also in time be overcome.

Once Philip decided to join, I told him that his most critical task was to buy land on the Mainland. Over a year has passed and my views have evolved. It now seems possible that we may not do that for another year or two. I may be proven wrong (and it will not be the first time) for the market may yet change suddenly. Irrespectively, we will still push ahead on many potential land acquisitions. If we do not, there will be no possibility to conclude transactions once the market becomes favorable again. That was exactly our experience in early 2009 -- two plots we had been negotiating for some time suddenly came to fruition once liquidity dried up for our competitors and perhaps also for the sellers, i.e. municipal governments.

In the past I had written about Mainland home builders invading the space of commercial real estate. Many reasons were presented which I will not repeat here. Suffice it to say that a good number of developers have apparently come around to our views regarding the residential sector -- volatile markets, lack of recurrent income, government intervention, and high taxes, just to name a few.

It is said that contributing to the shift, albeit in a very small way, is the so called "Hang Lung Phenomenon." Many developers on the Mainland have in the past years noticed our achievements and tried to emulate them. Our assessment that few will succeed will not stop them. Property arms of huge state-owned enterprises as well as large non-government owned real estate companies are entering the fray to supplement their residential projects. A few Hong Kong players have recently turned aggressive in the same space thus further crowding the field.

Then came the game changer. In February this year, the Central Government announced the building of 36 million units of subsidized or social housing for sale or rent over the next five years. In 2011 alone, 10 million apartments must begin construction. After years of managing demand and failing, Beijing now feels obliged to address the supply side as well. It is one thing to provide a massive amount of land for the private sector to build apartments whose sales prices are restricted by land lease from the government; it is quite another for the municipalities to build and sell themselves. Their respective effects on the market are very different.

縱使政府未能克竟全功，但對住宅發展商來說，此舉無可否認會令市場規模嚴重萎縮。二零一零年新落成商品房總數是九百三十萬套，但單是未來一年政府可建成的保障房已達一千萬套，其中百分之四十可供租賃。統計顯示，現時一套住房平均住三數個人，未來五年建設三千六百萬套保障房，意味著超過一億一千萬人會有居所，約相等於內地城市居住人口的百分之十七！難怪這麼多住宅發展商轉而進軍商業地產市場。

這無疑會推高商業土地價格。不符標準的商場和辦公樓本已充斥全國，今後將會湧現更多。許多最終均會失敗，但這不會令發展商卻步。這些物業幾乎全部都會分拆出售，並且往往在未落成前便已售出，部分原因是其發展商財政薄弱，同時也因為他們希望滾大資金。歷史顯示，這些原本已設計欠佳的物業一旦分拆售出後，其質量只會快速地退化。中國無可避免地將成為一個遍佈「垃圾商場」和「垃圾辦公樓」的國家，這現象或已發生，極其浪費資源、土地及建築物料，並將令中國城市和居民飽受「視覺污染」的禍害。

在稍後的章節，我會討論恒隆如何應對這個新的競爭環境。

我於年中時曾撰述上半年財政年度發生的兩件事，包括大連恒隆廣場於去年九月動土及十一月的配股。後者理念已明確闡述，我不在這裏重複。但有另一項發展，值得作出解釋。

自從一年前有關方面更改法規後，我們便開始吸納人民幣。到目前為止，我們已購入人民幣約二百億元，在某些時候更是公開市場上最大的人民幣吸納者之一。這些交易絕非投機買賣，我們永不會這樣做；買入人民幣其實是供資本開支所需。未來三年，我們在內地的施工費將達人民幣約一百五十億元，這還未計入我們可能進行的土地購置。從近期的交易來看，不難於一天內花掉人民幣五十億元！

Even if the government does not accomplish all it sets out to do, there is no denying that to a residential developer, this equates to a serious shrinkage of the pie. In 2010, the entire new stock of commercially built residential units numbered 9.3 million, but next year alone, the government may complete 10 million apartments, 40% of which could be for lease. Given present statistics of slightly over three people to a dwelling, 36 million units in the next five years mean that they will house over 110 million residents. This is some 17% of all city dwellers on the Mainland! No wonder so many home builders are moving into the commercial property sphere.

This will undoubtedly drive up commercial land prices. A country already full of substandard malls and offices will see even more of the same. Many will eventually fail but that will not deter developers. Due partly to their weak financial positions as well as a desire to churn their capital, almost all such buildings will be cut up into small units and sold, often before completion. History everywhere shows that once condominiumized, the condition of such already poorly designed facilities can only quickly deteriorate. China will inevitably become - - if it has not already become so - - a country of "junk malls" and "junk offices." This is a tremendous waste of resources, land and building materials, and will condemn Chinese cities and their citizens to such "visual pollution."

In a later section, I will discuss Hang Lung's response to this new competitive landscape.

At mid-year, I wrote about two events that took place during the first half of the fiscal year - - breaking ground at Dalian Olympia 66 last September and the share placement last November. Rationale for the latter was clearly enunciated and I will not repeat it here. There is however one other development which bears explanation.

Since the rule changed exactly a year ago, we began to accumulate Renminbi. So far we have bought about RMB20 billion worth. At times we were one of the biggest purchasers in the open market. None of this is for speculation; we never do that. Rather the acquisitions are for capital expenditure needs. In the coming three years, we will spend approximately RMB15 billion in construction on the Mainland. This does not take into consideration land that we may purchase. Judging from recent transactions, to spend RMB5 billion in a day for that is rather easy!

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

此外，我們一直持有落成項目作長期收租，而非急急出售。這意味著回報會來得較慢但穩定。然而，我們必須支付前期的施工費，而它的金額遠超落成項目的每年租金收入，這個情況在項目落成後的頭數年最為顯著。因此，雖然嚴格來說我們沒有貨幣錯配的問題（因支出和租金收入都是人民幣），但有時差。基於這個原因，在董事局支持下，管理層決定著手購買我們現時所需的人民幣。畢竟，大部分人均認為，至少在未來一年左右，人民幣的升值機會較貶值機會為大。人民幣的存款利率亦較港幣為高。

有一個反對意見是，內地現時的法規令人民幣的離岸交收有困難，甚至乎不可能。但是，即使在最壞的情況下我們須要先把人民幣重新兌換港元再匯入內地，我們仍會因為當中的存款利率差距而得益。至於我們可能獲得的貨幣升值收益，也屬附帶的好處。

再者，我們相信人民幣政策正在放寬。中國現時也許持有太多外匯，而北京亦不希望見到人民幣升值過急。因此，外地公司或許有一天能獲准直接匯入人民幣。巧合的是，我們其中一個項目最近獲准這樣做。這仍非一個全國性的現象，但可能性是絕對存在的。

一年前正值管理層交替時，我告訴股東本公司正經歷一個重大的轉變。我們的業務正從雙城運作邁進到全國性多點的跨地運作模式。我們從來不是一家營運密集的公司，但鑑於未來約十年將有二百萬平方米的高端商用物業落成，我們亦必須改變管理方針。多年來，我們以身為一家精簡企業而自豪，公司每名員工創造的利潤居最高之列。去年本公司的純利超過港幣二百三十億元，每名員工平均創利約港幣一千萬元。然而，在未來數年，我們的員工人數每年將增加百分之十至二十。

我們必須為這些新的發展作好準備。第一步是找一個善於營運管理的領袖。這是最關鍵的決定，而我們很幸運獲得南祿加盟。在他

Moreover, we always hold on to our completed projects for long term rent rather than for a quick sale. That means returns will come in slowly though surely. Yet construction must be paid for upfront in sums far exceeding the annual rent intake. This is especially true in the earlier years of a completed complex. So although strictly speaking we do not have a currency mismatch -- both outgoings and rents received are in Renminbi -- there is a time gap. Consequently, management with blessing from your Board decided to buy now what we need. After all, most people believe that at least in the coming year or so, the chance of that currency going up is greater than the chance of its fall. Interest from Renminbi deposits is also higher than for Hong Kong dollars.

One argument against acting so is that present regulations on the Mainland make transmitting offshore Renminbi onshore difficult if not impossible. But even in the worst case scenario where we have to reconvert Renminbi to Hong Kong dollars before sending into the Mainland, we are still ahead because of the deposit rate differential. What we may gain in currency appreciation will be a side benefit.

This is not to mention our belief that Renminbi deregulation is ongoing. China now has perhaps too much foreign currency and Beijing does not like to see its own rise too fast. Consequently, it is plausible that one day soon, outside companies will be allowed to directly wire in Renminbi. As it so happened, in one of our projects permission to do just that was recently granted. This is not yet a national phenomenon, but that possibility is definitely there.

As I told shareholders when we went through management succession a year ago, the Company was undergoing a major shift. We are moving from a two city operation to a national one with multiple locations. We were never an operation intensive company, but with the construction of two million square meters of high end commercial complexes in the coming decade or so, the orientation of management will by necessity change. For years we prided ourselves as being a lean company with one of the highest per staff profits -- last year on average each employee contributed about HK\$10 million to the bottom line of over HK\$23 billion. Now our staff count will increase by 10-20% per annum for the coming few years.

The first step to prepare for the change is to find a leader who is strong in operational management. That is the single most critical decision and we are fortunate to have secured the service of

出任董事總經理一整年後，我欣然匯報我們找對了人選。

地產行業的專業知識實不難懂，南祿很快便掌握了，並迅速地強化了管理團隊。我們的管理層現有五名執行董事，包括董事長及董事總經理在內。其中兩名執董於二零一零年在內部擢升；一名在南祿加盟前，另一名則在南祿加盟後。

在原先的六名助理董事中，有兩人如前述已經擢升，一人已經請辭。因此，除餘下的三名助理董事外，我們再在公司內部擢升三人，連同我們從外聘請的四人，合共為十人。為令這支管理團隊更為完備，我們還需要一名執行董事，現正會晤人選。除了我們的董事總經理外，這名新人將是唯一非「土生土長」的執董。無論如何，到時六位執行董事和十位助理董事將構成本公司的核心，致力為股東繼續提供理想的業績。

正如本人在以往的致股東函內所匯報，我們聘請了許多高級經理和經理以配合業務擴展所需；他們與執行董事和助理董事一樣都持有本公司的股份期權。二零零五年初我們開始在上海以外買地時有三十八人獲授予股份期權，如今人數已增至九十八人。我列舉這些統計數字，只希望道出在本公司所發生的轉變。在數字背後，我們花了大量功夫來打造和凝聚團隊，使它更有效率。

在管理制度方面，我們正在推動各項改進和調整，找出各項管理制度的弱點及採取改善措施。略舉數例，我們在內部審計、編制和審閱預算、資訊科技及集團傳訊各方面，都已經或很快會有更完善的系統。與一年前比較，我們在各方面都是一家更卓越的公司。

新的領袖也為我們帶來了不偏不倚的新思維。某些一貫做法可能需要重新審視；對悠久的傳統提出質疑，對現有的觀念、思維和程序作出反思，都可以帶來可喜的轉變。總而言之，南祿作出的許多貢獻已帶來實質的成果。我們還有許多工作要做，會好好利用今後一兩年時間完成。

Philip. After his first full year as Managing Director, I am pleased to report that we have found the right person.

Philip has quickly picked up the real estate industry specific knowledge which frankly is not difficult. He has worked expeditiously to build out a stronger management team. At the top, so far we have five Executive Directors (ED's) including the Chairman and the Managing Director. Two were promoted internally in 2010 -- one before Philip joined and one after.

Of the six original Assistant Directors (AD's), two were elevated as mentioned and one resigned. Adding to the three remaining AD's, three were promoted from within and we hired four from the outside making a total of ten. To round out the leadership team, we need one more ED and candidates are being interviewed. Once appointed, he or she will be the only ED, not counting our Managing Director, who is not "home-grown." Whatever the case, by that time the six ED's plus ten AD's will together form the very heart of the organization who should be able to continue delivering satisfactory results to shareholders.

As reported in previous letters to shareholders, we have been hiring many senior managers and managers to meet the varied needs of the expanding business. Like ED's and AD's, they are all stock option holders of the Company. We started with thirty-eight when we first bought land outside of Shanghai in early 2005; now the number stands at ninety-eight. I present a few statistics just to give some indication of what changes have taken place. Beyond mere numbers, much is being done to shape and coalesce the team to make it even more effective.

Management system wise, many improvements and adjustments are being made. Weaknesses have been identified and measures to augment or even alter have been put in place or set in motion. For example, we now have -- or in some cases, soon will have -- better systems in internal auditing, budgeting and review, IT, and corporate communications, just to name a few. In many respects, we are now a better Company than we were a year ago.

With a new leader, we also benefit from a set of unbiased eyes. Things that have always been may need reexamination. Questioning long traditions and challenging existing concepts, precepts and procedures can bring desirable changes. All in all, Philip's many contributions are already bearing tangible fruits. Much more needs to be done and we will take advantage of the next year or two to complete the tasks.

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

我明白，對許多投資者而言，公司的管理事宜未必是切身關注。反之，人們一定留意到，過往我們每次在內地買地時，公司股價便會上升。然而，我們絕不會迎合這些短炒訴求。為股東提供長線、持續並兼顧風險的最大回報，是我們的使命。有著這個目標，在管理方面的種種改進才具有意義。

有些人在得悉我評估未來一兩年買地的可能性不高後，甚或會出售本公司的股份，我對此的回應當然是：「隨便吧！」不管怎樣，我們無法阻止這些行為，況且我們實在不介意，因為當本公司的股價跌至某些價位時，母公司恒隆集團便會購入。事實上，公眾可從公開文件中得悉，母公司在近來數月已開始行動。

### 策略性計劃

要知道怎樣應對新的競爭環境，我們需要從歷史中學習。一個很好的起點是十四年前，香港回歸祖國，恰好亦是亞洲金融危機爆發之時。

如果以二零一零年底香港所有大型上市地產公司的股價為基準，追溯到四至十四年前，可以發現除了一年外，本公司的總回報率（股價表現加上派息）或母公司恒隆集團的總回報率都是最好的；在那例外的一年，我們與第一名相當貼近。（過去三年，本公司的表現不俗，但不及其他一些公司出色。）如果以一九九七年市場高峰期例如六月三十日為基準，向前推算至今年六月三十日止，本公司的表現更為可觀。除了一年外，本公司的總回報率均位居首席，而很多時候恒隆集團都名列第二。我們既躋身最大型地產公司之列，亦能取得這些佳績。

問題是：我們如何能臻此成果？答案應可作為我們日後發展的指路明燈。我相信，我們賴以成功的其中一個關鍵因素，是我們比任何人更能掌握市場時機。事實上，我們篤守原則，只按市場行事。換句話說，我們比大部分人甚至全部人更加尊重市場。我們認為市況處於低位時才會買，認為市況處於高位

I recognize that management issues are not of immediate concern to many investors. Rather, one could not but notice that in the past, every time we bought land on the Mainland, our share price went up. However, we will never pander to such short term desires of some. We are here to maximize sustainable, longer term, risk-adjusted returns to shareholders. With that objective, all management improvements make sense.

Some may even sell our shares upon hearing my assessment that the likelihood of land acquisition is not high for the next year or two. My response is of course: go right ahead. We cannot stop such action anyway. However, we really do not mind because when our share price reaches certain lower limits, our parent Hang Lung Group always buys. In fact, in recent months it started to do just that as evidenced in a public filing.

### Strategic Initiatives

To know how to respond to the new competitive environment, we need to learn from history. A good place to begin is fourteen years ago at the onset of the Asian Financial Crisis which coincided with Hong Kong's return to her Motherland.

If one were to use 2010 year-end share prices of all major publicly listed local Hong Kong property companies and work backwards for four to fourteen years inclusive, our total return (share price performance plus dividend paid) or that of our parent Hang Lung Group has been the best in all but one year. That time we came in a close second. (In the past three years, we have done acceptably though not as stellarly as a few others.) It's even more impressive if one uses the market peak of 1997 say June 30 as a base and moves forward until June 30 this year. In all but one year, your Company has been the top performer in total return. More often than not, Hang Lung Group came in second. We achieved all this while already being among the biggest players.

The question is: how did we achieve that? The answer should shed light on the path forward. A critical success factor is I believe our timing the market as well as anyone. In fact we are religious in acting only according to what the market tells us. If you will, we respect the market more than most if not all -- we only buy when we think the market is down and we only sell when we think the market is high. Yes, a year ago I wrote that unlike many

時才會賣。誠然，一年前我曾撰文說，恒隆與許多競爭對手不同：我們的增長模式和企業思維都仰賴於知識、經驗及努力，並非單靠價格變動來圖利。這是實情，但我們能掌握市場時機並拿捏得很準同樣是實情。過往顯示，我們對此甚有紀律。且看以下的歷史事實，即使是最精明的投資者亦會讚嘆不已。

過去二十年來，我們多次故意置身市場之外，這種能耐是不可思議的。(為便於書寫及理解，下文列出的都是概約日期。)在一九九二年至一九九四年的三年間，我們在香港和上海買入很多物業。當本港樓市在香港回歸中國前逐漸升溫，我們在一九九五年至一九九八年的四年間停止買地。這是我們遠在亞洲金融危機爆發前已先行作出的準備之一。(我在過去的致股東函已詳述有關細節。)即使在一九九七年七月危機開始後，我們仍繼續置身市場之外達二十一個月。一旦我們認為合適的時機來臨時，我們便採取購置行動；這在一九九九年和二零零零年發生，我們在沒有競爭的情況下買入土地。然後，從二零零一年到二零零四年，我們又停止買地四年。二零零五年至二零零六年時，在沒有人留意的情況下，我們在內地二線城市悄悄地購入多幅位於黃金地段的商業用地。當市場變得火熱時，我們停止購置兩年，那時是二零零七年和二零零八年。正如我常說，感謝上帝讓我們藉著二零零八年的環球金融海嘯，在翌年獲得入市良機。自從我們於二零零九年五月作出最後一次購置後，兩年多以來我們再沒有購置行動。

我很懷疑，世界上會否有另一家地產公司，像我們一樣買三年，停四年；買兩年，停四年；買兩年，停兩年；再買一年，然後至今停買超過兩年。正如我對一些機構投資者說，股東給我薪水就是為了讓我什麼也不做——所指的是我沒有為業務購置新地塊。但正因為知道何時不買，才會知道什麼時候該買。畢竟，為股東帶來回報的不是購買土地，而是我們是否以合適的價錢在合適的時間購買合適的地塊。

of our competitors, the Hang Lung way to grow and so being our corporate mindset is always to rely on knowhow, experience and hard work. We do not merely count on price movements to make money. That is true, but it is also true that we time the market and time it well. Our past shows that we are extraordinarily disciplined about it. Consider the following historic fact which even the most sophisticated of our investors may find surprising.

In the past twenty years, our ability to deliberately stay out of the market was uncanny. (For ease of communication, all the dates presented below are approximations.) For the three years between 1992 and 1994, we purchased many properties in Hong Kong and Shanghai. As our home market heated up ahead of the City's return to China, we for the next four years from 1995 to 1998 refrained from buying. That was one of several ways we prepared ourselves so well ahead of the Asian Financial Crisis. (In the past, I had written this to shareholders in some detail.) Even after the trouble started in July 1997, we still kept ourselves away for another twenty-one months. Once the time we deemed appropriate arrived, we acquired land. We did it in the absence of competition throughout 1999 and 2000. Then we stopped for another four years from 2001 to 2004. Between 2005 and 2006, we quietly snapped up large tracts of top located commercial land in second tier Mainland cities when no one was looking. When that market heated up, we stopped for two years. That was in 2007 and 2008. As I often say, thank God for the global economic tsunami which began in 2008. It provided us with an excellent opportunity to acquire land in 2009. From the last purchase made in May that year, it has now been another two plus years in which we bought nothing.

It is highly doubtful that there is another real estate company anywhere that is like us -- buying for three years, stopping for four years, buying for two, stopping for four, buying for two, stopping for two, buying for one and having stopped again now for over two years. As I have said to some institutional investors, many years shareholders pay me a salary for doing nothing -- in terms of not acquiring new material for our business. But it is precisely by knowing when not to buy that one will know when to buy. It is after all not the acquisition of land that brings shareholders return; it is purchasing the right plot at the right time and at the right price that matters.

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

我們不只算準入市即購置土地的時機，亦算準入市即銷售物業的時機。熟悉我們歷史的人都知道，我們趁一九九七年的樓市高峰期售出多項投資物業，獲利甚豐。他們也知道，我們近年一直持有已落成的香港住宅物業，直至市況非常熾熱時才銷售，從而取得最大的利潤。到目前為止，我們一直捏準市場時機。

我堅信，這個有紀律地解讀市場周期亦即尊重市場的方針，是我們過去持續成功的主要因素。我們深明地產周期的本質不變，因此我們沒有理由要改變方針。我們將繼續理性行事，那便是低買高賣。

在此我要特別提出——恒隆是抱長遠之心從事地產業，這一點非常重要。這個取向是配合行業所需，因為地產周期比較長，參與者必須抱有這個心態，才可以給自己時間受惠於市場波動。周期可令參與者，尤其那些短視的人破產，但同一周期亦正好讓其他人成功。

由於地產業的周期一般較長，短期來說，掌握得準確與否並非顯而易見，但時間會證明一切。同樣地，貴價買地不一定會輸錢，因價格可能仍會攀升一段時間。但當價格最終下跌，由於只有很少甚至沒有緩衝的空間，貴價買地箇中風險可能令該項購置有欠謹慎。

鑑於中國處於結構性的上升軌，即使市場未來出現調整，物業價格仍有可能不會跌穿發展商入市時的成本。這個可能性或許存在，但卻是危險的假設。以日本的地價為例，價格持續上升長達四十年，直至一九八九年才終止。然而，在這個超大的增長趨勢中，仍出現過多次大幅波動，例如七十年代初期日本物業價格便曾暴挫。

此外，今天的中國與二次世界大戰後的日本有很大分別，當時的地緣政治環境與今天截然不同。由於「現代財技」不斷蹂躪金融體系，現時的環球經濟環境比過去數十年脆弱和複雜得多。再者，今天的中國有它特殊的

We do not only time our market entrance, i.e. acquisitions, we also time our market exits, i.e. when to sell. Those familiar with our history know that in the market peak of 1997, we parted with certain investment properties at great profit. In more recent years, we have also been known to hold on to our completed Hong Kong apartments selling only at very hot market conditions to maximize profit. So far we have repeatedly called the market correctly.

I firmly believe that it is this disciplined approach to reading the cycles -- or respecting the market, if you will -- that is a major factor for our past successes. Recognizing the immutable nature of real estate cycles, there is no reason to change. We will continue to do the only sensible thing -- buy low and sell high.

It is important to mention here that Hang Lung is in the business for the long term. The industry demands that orientation, for real estate cycles are relatively long. Only with such a mindset will a practitioner allow himself or herself the time to capitalize on market movements. Cycles can bankrupt players, usually those with a short term outlook, and yet the same cycles are precisely what make others successful.

Because property cycles are in general long, getting them correct or not may not be obvious to all in the short run, but time will surely tell. Similarly, buying land expensively does not necessarily mean that one will lose money, for prices may continue to climb for some time. Nevertheless, the risks that are assumed may not make the acquisition prudent. There will be little or no cushion when prices eventually fall.

There is of course the possibility that since China is on a systemic up swing, even future market corrections may not see property prices fall to one's entry cost. That is however a dangerous assumption. Japan's land prices for example had been basically rising for four decades until 1989. However, there were still sizable fluctuations within that mega growth trend. The early 1970's for example saw property prices drop significantly.

Moreover, China today is very different from Japan of the post-World War II era. The geopolitical condition then was unlike that of nowadays. The present prevailing global economic condition is as well much more complicated and fragile than in the decades past, as "modern finance" continues to wreak havoc on the

情況，社會上存在著許多不確定性，著實惹人關注。這些因素有可能導致今天的周期較以往更短、升跌幅度亦更大。如果屬實，那麼購置機會將會較早而非較遲出現。

有些人對於我們不追逐價格持反調：既然恒隆的策略是只買位置最好的商業用地，不追價實際上令一些黃金地塊永遠與我們絕緣。我的答案如下：被昂貴土地牽絆的後果，遠比錯失一些優質地段更嚴重。畢竟，中國幅員廣大，有許多具有經濟活力的城市可供我們發展。再者，由於我們時常作好準備，當市場下跌時我們便可買入更多土地，這正是我們於一九九九年至二零零零年在香港以及於二零零九年在內地的情況。

所有經驗豐富的行政人員都知道，某些錯誤令人付出特別昂貴的代價，無論如何都要避免犯上。由於土地在地產業務裏的角色是如此重要，是否謹慎買地可影響到一家公司的存亡。歷史上有很多這樣的案例，我們在香港應感受特別深切。即使公司不破產，它的前景亦可能變得一片灰暗。讓我以恒隆的過去闡明。

我們於整個六十年代也許是香港增長最快的地產公司。以某些標準而言，在六十年代中期我們也許更是第二大者，但在七十年代我們卻完全看錯市。當時的正確做法是積極買地，但我們卻幾乎什麼都沒有買。到了一九八一至八二年，管理層嘗試從後趕上，大量買地，卻遇上一九八三至八四年的大跌市。像任何從厄困中——例如瀕臨破產邊緣——倖存的人一樣，我們即使不乏財力，也疲於作戰，無法掌握八十年代中期開始隨著市場復甦而出現的機遇。因此，我們錯失了香港地產業的黃金二十年。當我於一九九一年接手時，本公司已從六十年代其中一家最大的地產公司跌至陪跑的角色。

其後發生的事，提供了一個有意思的研究個案，並加強我們堅持信念以對應今天新的競爭環境。

system. Then somewhat unique to China, these days there are considerable uncertainties within that society which cause serious concerns. All that tends to make cycle amplitudes shorter than before and magnitudes greater than before. If so, then buying opportunities may sooner rather than later appear.

One argument against our not chasing prices is that given Hang Lung's strategy of only buying the best located commercial land, some such plots will practically be alienated from us forever. My answer is as follows: the consequences of being stuck with expensive land are far worse than missing a few good pieces. After all, China is huge with many economically dynamic cities in which we can play. Moreover, by keeping our powder dry, we should be able to purchase much more when the market falls. That was the case in Hong Kong in 1999-2000 and on the Mainland in 2009.

As all experienced business executives know, some mistakes are especially expensive and must be avoided at all costs. Since land is such a major element in the real estate business, its prudent acquisition can make or break a company. History is full of such incidents, and we in Hong Kong should know it particularly well. Even if a firm is not broken, its future prospects can be seriously dampened. Let me illustrate by drawing from Hang Lung's past.

Throughout the 1960's, we were perhaps the fastest growing real estate company in Hong Kong. By some measures, we might even have been the second largest by the middle of the decade. Yet we totally misread the market in the 1970's. When buying land aggressively was the right thing to do, we did almost nothing. By 1981-82, management tried to catch up and bought much land only to be caught out by the precipitous fall of 1983-84. Like anyone who has survived an ordeal with extreme difficulties -- such as reaching the brink of bankruptcy -- we were psychologically unprepared if not financially unable to grab opportunities that accompanied market recovery starting in the mid 1980's. Thus we missed the twenty golden years of Hong Kong real estate. We fell from being one of the largest in the 1960's to an also-ran when I took over the Company in 1991.

What has happened since makes for a meaningful case study and it encourages us to stay the course in face of today's new competitive landscape.

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

從一九九四年開始，以年終股價來計算市值及與九家最大的香港上市地產公司比較，恒隆集團當年排名第十，但此後本公司的排名扶搖直上。正確掌握市場時機，再次是我們成功的關鍵。一九九七年前，我們的市值基本上處於第八位。一九九七年至一九九九年，我們排名第七。在其後的六年裏，我們穩企於第六位。二零零六年，我們上升到第五位，二零零七年升到第四位，而自二零零八年起直到二零一零年的最後一個星期，我們一直名列第三位。（一家公司於二零一零年年底超越了我們。）

將本公司與九十年代頭三大地產商相比亦提供有趣的發現。在一九九九／二零零零年度，本公司與它們相差最遠。從當時起，投資界似乎開始認同我們過去十年的一系列正確決定，我們與三大地產商的差距持續收窄。當時它們的市值分別是本公司的十二倍、十倍及四點五倍，現在是本公司的一點七倍、兩倍及零點七倍。三家公司的市值自二零零零年以來都有良好的增長，但我們的增長速度遠遠更快。用圖表學的说法，我們的增長曲線陡峭得多。

本公司與首兩大持續領先我們的地產商之間的差距會否繼續收窄？這要取決於我們的增長曲線的陡峭度，但如果其中一家嚴重犯錯，分別亦會很大。在此消彼長的使然下，要挽回失地會加倍困難。但即使沒有重大失誤，曲線的斜率也會發揮作用。表面上這似乎不太重要，但如果兩家相差甚遠的公司中較小的一家持續趕上，那麼我們過去的經驗顯示這個差距將隨著時間而收窄。

要做到陡峭而持續的攀升，我們必須時時刻刻都做對的事。高價買地有可能把曲線拉平，這是為何我們不像某些競爭對手般追逐價格。他們可能賺錢，但我們寧願等待更好的機會。周期是不可避免的，我們會作好準備，並且力求避免過早入市。耐心等候者終可獲得勝利。

Using year-end share prices for market capitalization calculations and starting in 1994 with Hong Kong's nine largest listed property counters—that year Hang Lung Group ranked number ten -- your Company has advanced consistently. Properly timing the market is again a key success factor. Before 1997, we were basically the eighth in market size. Between 1997 and 1999, we were number seven. Then for six years we occupied the sixth spot. In 2006 we rose to number five, in 2007 to number four and since 2008 to number three until the last week of 2010. (A company overtook us at 2010 year-end.)

Comparing ourselves to the three largest property players of the 1990's also yields interesting findings. The biggest distance between us and each of them came in 1999/2000. At that point, the investing public apparently began to recognize our series of correct decisions in the previous decade. Since then, the gaps between us have consistently narrowed. Whereas they were respectively 12 times, 10 times and 4.5 times our size then, now they are 1.7 times, 2 times and 0.7 times our size. All three of them have grown nicely since 2000, but we have grown much faster. Putting it in graphic terms, our growth curve was far steeper.

Will the gap with the two players consistently larger than us continue to shrink? It will depend on how steep our growth curves are. What will also make a real difference is if one makes a serious blunder. The law of compounding dictates that to then catch up will be doubly difficult. But even without major mistakes, the gradient of the curve is significant. It seems innocuous enough but if the differential between two players is wide yet the gradient is consistently in favor of the smaller one, then over time the gap will close, as illustrated by our past experience.

To have a steadily steeper climb, one must do the right thing at all times. Buying land at high prices may flatten the curve. This is why we unlike certain competitors do not chase prices. They may well make money but we prefer to wait for better opportunities. Cycles are inevitable and we keep our nerves steady. We try not to jump the market prematurely. The patient will in the end win.

可以肯定地說，管理層絕無意與其他地產商競爭。我們只對應市場，不太著意別人幹或不幹什麼。致力在市場上做對的事，它最終都會給你回報。歷史證明，我們過去二十年確能成功從後趕上。

我猜想有很多人在概念上都認同我們的運作模式。然而，真正實踐的人何其少！愈少人做的事便愈難堅持；這是一條孤單的路。幾乎每個人都希望從眾，只不過沒有說出口；別樹一幟並不好受。

投資界亦會意見紛紜。我們敢於這樣行事，自然會招來諸多指責。最溫和的責備是指我們錯失良機，對此我們屢聽不鮮。從一九九五年到一九九七年中，許多國際機構投資者都斥責我們保守，其中一家世界最大的投資管理公司甚至對人說我根本就是懶惰。但我們絕不懶惰，因為無為（例如不買地）本身可以是最有為的做法，以我們的情況來說確實如此！它並非不思進取的躲懶，而是經過仔細思量的行徑。

事實上，在一九九五年至一九九七年中，我們其實做了很多事，唯一不做的就是買地。相反，我們把成熟的投資物業售出；以較長期的債務取代短期債務，並在資本市場集資。沒有人留意到這些行動，事實上許多人還嘲笑我們不像競爭對手般買地。我們的股價下挫，我們成為市場的笑柄——直至亞洲金融危機席捲而來，所有的鄙視目光都一掃而空，笑容似乎只在本公司管理層的臉上展現。漸漸地，少數精明的投資者開始加入我們的行列，悄悄地收集本公司的股份。我們最終能以廉價購入香港多幅最佳的土地；這些買了我們股份的股東賺了很多錢，我們也獲利甚豐，直到今天仍受惠於危機的餘波。

如今回望，亞洲金融危機帶給我們最大的突破；它是本公司股價的轉捩點，此後我們的股價再沒有調頭。二零零八年和二零零九年的環球經濟海嘯給我們類似的機會，以廉價購入內地的土地，但以規模來說始終較小。

To be sure, the mindset of your management is never to compete with other players. We only respond to the market and not so much to what others may or may not be doing. Strive to always do the right thing vis-à-vis the market and it will eventually reward you. Our history of catching up in the past two decades attests to that.

I suspect that many people conceptually agree with our modus operandi. However, how few there are who actually practice it! And the fewer there are who do, the tougher it is to stick to it. It is a lonely road. Unspokenly, almost all of us like to follow the crowd; it is uncomfortable to be different.

There will also be many controversial views from the investing public. One who dares to practice what we do is liable of being accused of many things, the most benign of which will be to have missed opportunities. That we are accustomed to hearing. From 1995 to mid 1997, many international institutional investors faulted us for being conservative. Eventually, one of the world's biggest investment management companies told people that I was plain lazy. But lazy we were not, for to not act (such as not buying land) can be -- and in our case, is -- in itself a most deliberate act! It is not brainless inaction; it is a calculated course of action.

It turned out that back in 1995 to mid 1997, we in fact did a lot. The only thing we did not do was to buy land. Instead we sold matured investment properties; we traded shorter dated debt with longer ones; and we tapped the capital market to raise equity. All such actions went unnoticed; instead, many derided us for not acquiring land like our competitors. Our share price suffered and we became the laughing-stock of the market -- until the Asian Financial Crisis struck. All contempt ceased, and your management alone, it seemed, was smiling. By and by, we were joined by a few shrewd investors who stealthily collected our shares. We in turn ended up purchasing some of Hong Kong's best pieces of land for a song. Eventually these shareholders of ours made a lot of money and so did we. Even today we are still benefitting from the aftermath.

With hindsight, the Asian Financial Crisis gave us our biggest break; it was a turning point for our shares which have not looked back. The global economic tsunami of 2008 and 2009 provided us with a similar, albeit smaller, opportunity to buy Mainland land on the cheap. We should have been able to win much bigger but

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

我們本應可以贏得更大，但正如我以前解釋過，中國政府的策略性決定令我們未竟全功。無論如何，其他機會將會隨著時間而湧現，對此我毫無疑問；我們所需要的只是耐心。

有人說，恒隆採用的是反周期策略。我只在某程度上認同這個說法，但有些時候我們亦必須隨波逐流。舉例說，我們雖然暫停出售香港物業一段時間，但我們遲早亦會跟隨。只要競爭對手營造的聲勢夠大，我們便會出擊。不過，我們多能摸頂亦即在上升周期快完結時出手，因而注定只與群眾短暫邂逅。許多時候，市場甚至不察覺我們出現。這樣也好，皆因我們很樂意拿到錢後再次從公眾的視線中消失。我們雖然無法預知何時再次出擊，但已開始準備下一輪攻勢。外界看來，我們再次無所事事，默默地等候。

事實上，等待需要很多功夫，甚至比起行動需要更大的勇氣。像我們手頭有很多現金的公司，很容易便會犯錯，亂買東西。很少人能抗拒誘惑；試想一下，伺機等候四年是什麼滋味。我們的支持者說，這需要勇氣和自信，而這些只可能來自堅定的信念。

然而，我們絕不可能有十足把握，試問除上帝外有誰知道明天的事！管理層其實經常反思而非充滿自信。我們內部經常互相辯論：究竟外在環境有沒有大變，我們是否需要另覓出路。我們與非執行董事商討，特別是向那些曾在中國內地有營運經驗的非執董請教。我們亦竭力去了解各項可改變中國或地產業面貌的內外因素。

我有時會想，我是公司的CPO亦即首席政治總監，而不是CEO(首席執行總監)、CFO(首席財務總監)、CRO(首席風險管理總監)、CTO(首席技術總監)或CMO(首席市場總監)。這兒沒有什麼專家，而坦白說也不可能有人有專家。我們只能憑觀察、經驗和分析，竭盡所能地希望做得對。中國並非一個純粹以市場主導的經濟，政策可以無聲無息

as I have explained before, a tactical decision on the part of the Chinese government prevented us. There is no doubt in my mind that in time, other opportunities will arise. We just have to be patient.

Some say that Hang Lung's strategy is countercyclical. I only agree to some extent, for there are times that we must go with the flow. For example, whereas we may hold back for some time from selling Hong Kong apartments, sooner or later we will join the crowd. Once the crescendo created by the competitors is loud enough, we will strike. It is just that we usually catch the apex of a trend, i.e. the end of an up cycle. As such, our courtship with the crowd is by definition short-lived. Most of the time the market does not even notice us. So be it, for we are happy to take our money and once again disappear from public sight. Back at home, preparation begins for the next assault, the timing of which we will not know beforehand. To the outside world, we do nothing again. We simply wait.

The fact is that it takes a lot to wait. Perhaps more courage is required for that than for action. Having a lot of cash on hand like we do is an easy way to make mistakes. Few can withstand the temptation, for it is all too easy for itchy hands to buy. Imagine what it is like to sit on your hands for four years. Our supporters say that it takes courage and self confidence which can only come through conviction.

The truth however is that we can never have enough conviction, for who but God knows about tomorrow! In fact, your management is full of self doubt rather than self confidence. We constantly debate internally if the external environment might not have changed so much that it calls for a different path. We engage our Non-Executive Directors in dialog, especially those who have operated on Mainland China. We strive to understand the many factors inside and outside of China which may alter the face of the country or of our industry.

As I sometimes think, I am neither the CEO, CFO, CRO (risk), CTO (technology) nor CMO (marketing) of the company but the CPO or Chief Political Officer. Here there are no experts; frankly there can be none. We can only do our best drawing upon observations, experiences and analyses and hope that we get it right. China is not exactly a purely market driven economy. Policy changes can come swiftly and unannounced. In face of such an environment, we all must be humble. There is no courage to speak of. We

地迅速改變。面對這樣的環境，我們上下同仁都必須謙虛。這沒有什麼勇氣可言；我們也會怕錯怕失敗，同樣也渴望成功，兩者都是鞭策我們的動力。

從外人來看，我們成績不俗；過去二十年我們都表現出色。今天，我們坐擁一個稱得上傲視同儕的商業土地組合，擁有最好的土地和最低的單位成本。箇中的真正代價是什麼？一個充滿自疑和飽受煎熬的管理層。環境變得太快了，令人無法安心，最終我們只能依靠我們對人性的解讀。人性是不會變的，只要它不變，無論經濟或政治都會有周期，原因是人性，尤其是貪婪和恐懼，會在世界上興波作浪而帶來周期。這是我們秉持的終極信念。我們不只認為自己在市場面前微不足道，在人性面前更是無助。永不要與市場或人性對抗，你只能盡力去了解它們，與它們同行。長遠來看，只有這樣做才會贏、才可以生存。我相信，恒隆會是贏家之一。畢竟，本公司的中文名稱有「恒久興隆」的意思，但願如是！

從掌握周期的角度來看，個人從業者在畢生的事業中可能只會遇上六、七個大周期。能夠準確掌握周期，便已事半功倍，餘下時間主要是伺機而動。那些過於精明並經常跳入跳出市場的人士，要承受著被市場擊倒的風險。歷史往往證明，集中嘗試掌握大變動才是遠較明智之舉。這與滑浪沒大分別，大部分時間都花在划逆流和等待大浪中。如果每個小浪都衝，你便可能錯過大浪。恒隆有耐心等，務求一擊即中。過去二十年我們在此方面表現出色，亦樂在其中。

我們蓄勢待發期間有大量工作必須開展，這些行動可歸納為兩大類：第一類是提升每個管理層面，令我們已購入的土地發揮最大效益，這個裨益不只惠及我們現有的項目。第二類是繼續洽購土地。在此探討現時的市場環境及我們應有的對策，乃有用之舉。

在上海以外，我們迄今正投資約港幣五百億元興建七個項目（包括瀋陽皇城恒隆廣場）。就財政而言，我們確可作出雙倍投資而仍能

are driven as much by the fear of mistakes and failures as by the desire to succeed.

From the outside, we look good -- we have done well in the past two decades. Today we are sitting on a commercial land portfolio that is perhaps second to none -- some of the best pieces at the lowest unit cost. What is the real price of that? A tormented management which is full of self doubt. The environment is changing too fast for comfort. At the end, all we can rely on is our reading of human nature. As long as that does not change -- and it cannot change -- then whether in economics or politics, there will be cycles. For it is human nature -- particularly greed and fear -- which makes waves and cycles in the world. That is the ultimate conviction that we have. We do not only deem ourselves insignificant when confronting the market, even more so we consider ourselves helpless in face of human nature. Never fight the market or human nature; just try to understand them and go along with them. In the long run, only such will win, and only such will survive. I trust that Hang Lung will be one of them. After all, our Company name in Chinese means "sustained prosperity." May it be so!

From the perspective of catching cycles, an individual practitioner may only encounter six or seven sizable ones in one's entire career. Get those right and one will be highly successful. The rest of the time is mainly a waiting game. Those who are too smart and frequently jump in and out of the market will run the risk of being whacked by it. History tends to prove that it is far wiser to only try to capture the big movements. This is not unlike surfing -- much of the time is spent paddling against the tide and waiting for the big wave. Surfing every little one may cause you to miss the mega one. And at Hang Lung, we are patient and go for the kill. For the past twenty years, we have done it well and it is truly fun.

While waiting, there is much that we should do; necessary activities fall into two categories. The first is to improve every aspect of management which will enable us to capitalize on the land that we have already purchased. The benefit will go beyond just the projects on hand. The second is to press ahead with land acquisition. It is useful to examine here the prevailing market environment and how we should respond to it.

Outside of Shanghai, so far we are expending about HK\$50 billion to build seven projects (including Shenyang Palace 66). Financially speaking we can double that investment amount and still be

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

應付裕如。然而，鑑於最近的市況，相同資金可購置的可建面積，有可能遠低於我們在二零零五年至二零零九年時可購置的。迄今佔土地價格最大比重的拆遷費已大幅飆升，一幅可建平方呎數少於瀋陽市府恒隆廣場的地塊，成本價可輕易遠超我們手上七個項目合共支付的地價總額。鑑於國內正在進行大量基建工程，建築成本亦只會上升。因此，項目成本上漲是無可避免。

我們就這個新情況調整思維時，應緊記兩點。首先，中國並非單元化的地方，城市與城市之間的分別甚大，這讓我們有望以可接受的價格買到一些優質地塊。其次，中國經濟將日益倚重本地消費作為增長火車頭（這將與出口以及基建項目為主的公共投資並駕齊驅。）正如總理溫家寶今年初對國民所言，未來數年的人均工資每年將最低限度上升百分之十三；尤其城市居民的可支配收入定會急升，而政府亦鼓勵人民消費。對我們而言，這應可對新項目的較高成本帶來一些補償，讓我們仍可望享有穩健的投資回報。

經過多番研究後，我們得出的結論是：我們過去二十年的內地策略仍應是未來多年的致勝方程式，但需要因應市場不時的變化作出戰術上的調整。我們會採取行動，事實上我們現已在試驗一些模式，而我抱有希望這會帶來一些令人愜意的成果。

### 展望

無可否認，我們在過去一年變得加倍審慎。除了因為上文提到內地競爭環境的改變外，還有其他原因令我們近期放慢購置土地的步伐。近年一些社會發展，令人漸感憂慮。當任何事都有可能發生時，即表示制度上存在相當大的不穩定性。既然有疑問，還是應該以靜制動。這也許純屬審慎，我們當然不希望有不幸的事情發生，但一旦出現，我們也不會因為現時以高價買入昂貴土地而受到掣肘。地價可能會下跌，因此我們應可以廉價買到一些好的地塊。

quite comfortable. However, given the latest market conditions, an equal sum will likely buy a lot less buildable space than we were able to between 2005 and 2009. The relocation of existing tenants which is by far the biggest part of land price has escalated substantially. A plot of land with less buildable square footage than Shenyang Forum 66 can easily cost much more than the total land price we paid for the seven projects on hand. Given the magnitude of infrastructure works in the country, construction costs can also only move up. Thus the trend towards much more expensive developments now seems inevitable.

While we adjust mentally to this new reality, two issues should be kept in mind. The first is that China is not a monolithic place and huge differences exist from city to city. That gives us hope that we may be able to find superb pieces of land at acceptable prices. The second is that the Chinese economy will increasingly rely on domestic consumption as a growth engine (along with exports and public investments mainly in the form of infrastructure developments.) As Premier WEN Jiabao told the nation earlier this year, the average salary will increase by at least 13% per annum for the coming few years. Disposable income especially of city dwellers can only rise rapidly and citizens are encouraged to spend. For us, this should somehow compensate for the higher costs of new projects and hopefully still gives us a healthy return on investments.

After much study, we have come to the conclusion that our Mainland strategy of the past two decades should still be the winning formula for the coming many years. What may need adjustment in response to periodic changes to the market is our tactic. That we will do. In fact we are already experimenting with a few models and I am hopeful that some pleasing results will follow.

### Prospects

There is no denying that in the past year we have turned even more cautious. Besides changes in the Mainland competitive environment as described earlier, there are other reasons to slow down land acquisition in the near term. In recent years, there have been social developments which have become increasingly worrisome. Anything can happen which means that there are considerable uncertainties in the system. So when in doubt, it is better to wait. That may just be simple prudence. Let us hope that nothing untoward will happen, but if it does, we will not be stuck with expensive land. Prices will likely fall and we should be able to pick up some good pieces on the cheap.

不論是本土或國際的經濟情況均乏善可陳。美國和歐洲持續疲弱，遲早會影響中國的出口。在國內，通脹持續飆升，官方數字未及如實反映情況；食品價格的升幅着實驚人。猶如其他地方一樣，經濟困境可以轉化為社會問題。科技無遠弗屆，資訊可在瞬間如傳染病般蔓延。所有這些似乎表明，今天的風險可能較潛在的回報為大。

地產行業方面也有某些地方值得關注。多年來，中央政府和發展商對政府監管房地產市場的成效存在著重大的意見分歧。到目前為止後者佔上風，房價仍持續攀升。然而，社會上對高房價不滿的聲音加上嚴重通脹出現，逼使當權者採取日益強硬的措施；前文所述的保障房建設計劃便是明證。鑑於房價穩定對維持社會和諧極其重要，除非事態有急劇的新發展，否則我們看不到政府會為何貿然放鬆遏抑房價的力度。在這情況下，地產市場有可能發生兩件事。

在今年五月前的十四個月內，單是二十三家內地發展商已在香港債券市場借了超過港幣一千二百億元，其中三分之二的借貸是五年或更短期，部分年息高達十四厘。這只是其中一個舉債渠道，貸款者都是實力較強，業務覆蓋各地甚至全國的上市企業。另一方面，很多本土發展商為掙資金而付出難以長期負擔或實屬高利貸的成本。它們有些遲早會被併購，有些可能會破產，後者如接二連三地發生，可能對整個行業帶來連鎖反應。若然如此，我懷疑現在是否購置土地的好時機。

另一個現象是，沒有一家公司破產；縱使有，它帶來的連鎖反應也有限。這情況所帶來的影響，在短期內不會太劇烈，需要一段時間才會浮現。一些倖存的住宅發展商會因此加快進軍商用物業，導致這個市場的競爭加劇。借用中國歷史的說法，部分城市到時候將會出現「戰國」時代。

Both the domestic and international economies leave much to be desired. Continued weakness in the U.S. and Europe will sooner or later affect China's exports. Within its own border, inflation has been rampant; official figures do not begin to tell the true picture. The rise in the price of food stuff is particularly alarming. Like everywhere else, economic woes have a way of being translated into societal troubles. The ubiquity of technology will almost ensure contagion. All these seem to indicate that the risks today may be greater than the potential reward.

There are also industry specific concerns. For years now the Central Government and the developers have had very different opinions regarding the effects of government regulations on the real estate market. So far the latter seem to have had the upper hand in that prices have continued to climb. However, societal voices of discontent on high prices together with serious inflation are forcing the powers that be to take increasingly stronger measures. A clear proof is the social housing scheme mentioned earlier. Unless there are drastic new developments, we do not see how the government will lightly let up the pressure, for stable prices are critical to maintaining the all important social harmony. Two things then may happen to the property market.

In the fourteen months prior to this May, twenty-three Mainland developers alone borrowed over HK\$120 billion from the debt market in Hong Kong. Two thirds are for five years or shorter and some as high as 14% per annum interest rates. This is but one source of debt creation and these borrowers are usually stronger companies since they are publicly listed and are regional if not national players. Many more local operators are struggling for funding at costs that are not sustainable, and frankly usurious. Sooner or later some of these will be bought while others may be allowed to go bankrupt. The latter, especially if there is contagion, will have ripple effects on the entire industry. If so, then I wonder if this is the right time to acquire land.

The other scenario is less dramatic in the short run and will take some time to play out. Namely no firm goes bankrupt or if some do, contagion is contained. Then some of these surviving residential developers will speed up their migration to the commercial side thus intensifying competition in that arena. In some cities, a period of "Warring States," to borrow a term from Chinese history, will ensue.

## 董事長致股東函 CHAIRMAN'S LETTER TO SHAREHOLDERS

雖然大部分參與者將經營小型和低端項目，但它們當中有不少參與者會進軍我們的市場，包括許多國有企業的子公司在內，在主要城市建設大型高端的商業設施。無論它們是大型或小型，已足以令某些城市的競爭白熱化，汰弱留強，直至行業出現整固及留下少數強者為止。

這場戰役的關鍵因素是財力以及專業知識和經驗，恒隆在上述各方面肯定都是最強者之一。

中國版圖遼闊，擁有近兩百個逾一百萬人口的城市，在商業地產項目的發展程度而言，各城市之間存在著巨大的差異。我們仍發現有優秀的城市因各種原因而被競爭對手忽略，我們會嘗試在這些城市購置土地。坦白說，很少城市擁有設計和施工皆合適的商場，而存在著激烈競爭的城市更少之又少。

在競爭激烈的市場當中，瀋陽的情況也許最為嚴重。誠然，我們一馬當先在當地購置頂級商業用地，但隨後當地官員向跟隨我們步伐的發展商售出更多商業用地。無論如何，我們已非首次面對競爭。當港匯恒隆廣場於稍逾十年前在上海徐匯區開業時，毗鄰已有五、六座有規模的購物商場或百貨公司。其時的戰況極為激烈，其中一座在全國有許多據點的購物商場，甚至威脅其租戶不可在港匯恒隆廣場開業。但在短短數年間，憑著超卓的產品，即設計和規模及管理，我們擊退所有競爭對手。如今，參與者可分為兩類：贏家和輸家。前者有兩個，其中港匯恒隆廣場明顯是領先者。

我們在瀋陽、濟南、無錫、天津及大連這五個城市均有在建項目，亦毫無疑問將是最終的贏家之一。問題只是：我們的勝利有多大。在上海，成敗已成定局，我們的項目每年的無槓桿收益率約達百分之三十五，並持續上升。坦白說，很難找到一個類似項目有我們收益率的一半。同樣，我們在其他城市的土地所處位置均卓越無比，但土地成本只是今天地價的一小部分。誠然，我們的建築

While most of the participants will operate in the space of lower end smaller projects, enough of them, including many subsidiaries of state-owned enterprises, will play in our league -- higher end large facilities in major cities. Whether big or small, there will be severe competition in certain cities. Eventually the weaker ones will be forced out and the sector will consolidate with a smaller number of stronger players remaining.

The determining factors for the battle will be financial strength as well as industry knowhow comprising knowledge and experience. We are certainly among the strongest in all these areas.

Due to the size of the country -- almost 200 municipalities with a population of over one million -- huge differences exist between them in terms of the degree of development in commercial real estate. We still find excellent metropolises which are for various reasons overlooked by competitors. We will try to buy land there. Frankly the number of cities with reasonably designed and built complexes is very limited, and fewer yet have severe competition.

Among the hotly contested markets, Shenyang may be the worst. To be sure, we were among the first to buy top commercial land there but thereafter, local officials sold much more to those who cared to follow in our footsteps. Nevertheless, this will not be the first time that we face competition. When Grand Gateway 66 opened in Xuhui District in Shanghai a little over a decade ago, there were already five or six shopping centers or department stores of size in the immediate neighborhood. The fight was so fierce that one of them which had many locations across the nation threatened their tenants not to open in our facility. But in a few short years, by sheer superiority in product, i.e. design and size, and management, we beat back all competitors. Now players can be divided into two categories -- the winners and the losers. There are two in the former group with Grand Gateway 66 being the clear leader.

In all five cities where we have projects under construction -- Shenyang, Jinan, Wuxi, Tianjin and Dalian -- there is little doubt that we will be an ultimate winner. The only question is how big our win will be. In Shanghai, the score has been settled; it is frankly difficult to find a similar complex which yields half of our annual unleveraged return of about 35% and rising. Similarly in the other cities, our locations are among the very best yet our land costs are a fraction of what they would fetch today. Admittedly our construction is more expensive because we do not sell and

費較高，皆因我們不會出售項目，並非常認真地對待可持續發展的問題。總括而言，我們相信該等項目可享有穩健的投資回報。

當我們約二百七十萬平方米(恒隆集團另外擁有港匯恒隆廣場約十五萬平方米)的內地租賃物業全部落成後，該物業組合可謂陣容鼎盛，應屬於中國最高收益率的物業組群之列。我們將是中國邁向成為世界經濟強國的主要受惠者之一。

儘管在興建餘下六個項目(不計瀋陽皇城恒隆廣場)之過程中將會面對重重挑戰，但隨著政府持續鼓勵本土消費，我們或會不時受惠於這股順風。較快出現的情況可能是降低奢侈品的進口稅。現時該等消費約有百分之五十六在國外產生，為何中國要國民往外地購買該等產品？今天，在路易威登(Louis Vuitton)和香奈兒(Chanel)等位於香港、巴黎或紐約市的名牌店，說得最多的語言之一是普通話。有朝一日，中國所收取的進口稅或會少於其失去的銷售稅。屆時，我們將是主要的受惠者之一。

我們還見到其他潛在的利好發展，但尚未能完全肯定；其中之一是與內地市政府的賣地方式有關。在九十年代，賣地方式毫無監管，導致貪污頻仍。(這亦是我們為何於一九九二年在上海而非某些其他城市買地的兩大原因之一。當時上海是最廉潔的主要市場；另一原因是我們看好這個城市的經濟前景。)

當時的總理朱鎔基被逼插手監管賣地程序。簡言之，價格最要緊，價高者得。這是一個令人欣喜的發展，為那些像我們般誠實的參與者提供一個公平競爭之地。但這個方法實施多年後，開始出現嚴重的弊病。一個完全漠視環保或對低碳項目缺乏經驗的發展商，只要願意多付一塊錢，便可擊敗我們這些對手。在所有條件都相同的情況下，由於這家發展商無需擔負可持續發展等相關支出，它的建築成本往往較低，因此每每均能獲勝。這意味著我們在環保方面的經驗及為此而付出的額外努力，連一塊錢都不值，這明顯是不合理的。

are very conscientious about sustainability issues. All things considered, we believe that we should have a healthy return on investments.

By the time we complete all our Mainland rental properties of almost 2.7 million sq.m. (with Hang Lung Group owning another about 150,000 sq.m. in Grand Gateway 66), the portfolio can only be described as awesome. It should be among the highest yielding of anyone in China. We will be a prime beneficiary of the country's march towards becoming a global economic powerhouse.

While challenges will abound in the process of building out the remaining six projects (not counting Shenyang Palace 66), we may periodically benefit from some tailwind as the government continues to encourage domestic consumption. An earlier event may be the lowering of import duties for luxury goods. Right now approximately 56% of all such purchases are made outside of the Mainland and why should the country drive its citizens overseas to buy? Today a dominant language spoken in stores such as Louis Vuitton and Chanel in Hong Kong, Paris or New York City is already Mandarin Chinese. There may come a time when such import duties collected by China will not be worth the sales tax lost. When that happens, we will be a key beneficiary.

There are other potentially pleasing developments of which we are less sure. One relates to how land is sold by Mainland municipalities. In the 1990's, it was done in a most unregulated fashion. As a result, corruption abounded. (That was one of two main reasons why in 1992 we bought in Shanghai and not in certain other cities. It was then the cleanest major market. The other reason is our positive assessment of the city's economic prospect.)

Then Premier ZHU Rongji was forced to step in and regulated the land sales procedure. In a word, price is all that matters -- the highest bidder wins. That was a welcome development for it leveled the playing field for honest players like ourselves. But after practicing this for some years, a serious flaw began to surface. A developer with a total disregard for the environment or little experience in low-carbon projects can beat someone like us if they are willing to pay a dollar more. All things being equal, such a company will always win because their construction will be cheaper, not being burdened by sustainability related expenses. That means all our experience and extra efforts in this regard are not worth a dollar. This is obviously not reasonable.

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再舉一個較難量化的例子。我們每一個內地新項目均獲國際知名機構頒予設計大獎，其裡裡外外均富美感並兼具卓越功能，這與許多競爭對手特別是本土的有天淵之別。這些超卓設計往往需要較多成本和時間，但它們在土地拍賣的價值如何？答案是：沒有。

坦白說，如斯土地政策不僅不能鼓勵持續發展及優質設計，實際上是向它們潑冷水。懲善揚惡的方針必須停止。鑑於中國政府——至少在高層方面——銳意保護環境（雖然在實行上有許多掣肘），領導層有可能快將頒佈新的指令。

事實上，部分市領導人開始正視問題所在，並正採取對應措施。技術上，應有方法可充分解決有關問題，並在財務公正與防止貪污之間取得平衡。像我們一樣重質量的發展商應歡迎這個趨勢。我們希望改革可以越早推出越好。

兩年前我分析本公司近二十年的歷史，並把它分為「準備期」、「後來居上期」及「起飛期」，合共三期，每期為時七年。我並進一步預測，我們約從二零一二年起進入黃金時代，將從二零零五年起我們進軍香港和上海以外城市的努力耕耘中獲享收成。我的信心是基於五項因素，包括：富經驗的團隊、恒隆品牌，尤其在內地的品牌價值、在上海無與倫比的佳績、極為雄厚的財力，以及於二零零五年至二零零九年之間所購置的卓越土地。前四者可讓我們運用最後一項以提供愜意的財務業績，並為我們奠下穩固基礎，以取得超越我們現已購置的土地的成功。

Take another example which is less quantitative in nature. Each of our new Mainland projects has received design awards by reputable international organizations. Both the exteriors and interiors are aesthetically pleasing while maintaining excellent functionality. This is in stark contrast to many of our competitors especially those from within the Mainland. What value, if any, is attached to the superior design which usually costs more money and time? The answer is: none.

Frankly such land policies not only do not encourage sustainable development and excellent design; they plainly discourage them. Disincentives for good behavior must stop. Given how keen the Chinese government at least at senior levels is to protect the environment (although there are many constraints in implementation), it is possible that new directives from the top may soon be introduced.

Indeed some city leaders are beginning to recognize the problem and are taking steps to address it. Technically, such issues should be able to be satisfactorily resolved while balancing the needs for financial fairness and corruption prevention. This trend should be welcomed by quality developers like ourselves. Our hope is that changes will come sooner rather than later.

Two years ago I analyzed our recent twenty year history and divided it into three phases of seven years each -- Preparatory, Catch Up and Take Off. I further anticipated that beginning around 2012, we may well enter into a golden era. We will harvest the good efforts since 2005 when we ventured into cities beyond Hong Kong and Shanghai. My confidence was based on five factors -- an experienced team, the brand equity of the Hang Lung name especially on the Mainland, an unmatched track record in Shanghai, an extraordinarily strong balance sheet, and the superb pieces of land acquired between 2005 and 2009. The first four factors will enable us to capitalize on the last thus delivering pleasing financial results. These have also laid a solid foundation for us to succeed beyond the land that we have already purchased.

回顧過去二十年，顯然並非事事一帆風順。市場波動頻仍，我們必須審慎應對峰頂和低谷方能取勝。如今，我們踏入第四個七年期，眼前的似乎是另一個困難市況；這並非指價格下跌，而是指眾多的不確定因素。這些不確定因素來自三方面：社會、經濟和行業，我已在上文作出不同程度的撰述。

很明顯，第四個七年期將在什麼環境下展開，斷非我們所能作主。但倘若我們能贏得股東信任，那麼我們應該知道如何在不同市況中行事。我相信我們走過的路已為我們作好準備以面對未來。只要中國經濟不進入長期的嚴重困境，我們應可蓬勃發展。但萬一出現這個情況，我們會評估其經濟需時多久方能復甦。無論時間長短，假以時日會有許多供購置土地作進一步發展的良佳機會。自私地說，經濟放緩對股東而言並非壞事。

回觀近期，我們能否在本財政年度出售香港的已落成住宅，現時仍未清晰。縱使不能，租金收入的升幅也應可帶動溢利的穩健增長。鑑於上海市場逐漸成熟，其增長可能會稍為放緩，但本公司的營業額會因新添瀋陽皇城恒隆廣場及濟南恒隆廣場而受惠良多，而純利會隨著時間而遞至。

董事長

**陳啟宗**

香港，二零一一年七月二十九日

Looking back over the past two decades, it is abundantly clear that nothing goes in a straight line. Market fluctuations abound and one must react prudently to both peaks and troughs in order to win. So as the fourth 7-year period is about to dawn upon us, we apparently find ourselves in yet another tough market condition -- not in terms of fallen prices but in the abundance of uncertainties. Such uncertainties come in three levels -- societal, economical and industry-specific, as I have to varying degrees written above.

It is obviously not up to us what the environment will be when we begin our next phase of seven years. But if we are at all worthy of shareholders' confidence, then we should know how to act in different kinds of market conditions. I trust that our past has prepared us well for the future. As long as China's economy does not enter into a prolonged period of serious difficulties, we should thrive. But if it does, then we will assess how long it will take for the economy to recover. Whether long or short, in time there will be plenty of good opportunities to buy land for further developments. Speaking selfishly, an economic downturn would not be a bad outcome for our shareholders.

Returning to the immediate term, it is unclear whether we will be able to sell completed apartments in Hong Kong this fiscal year. Even if not, increases in rental income should yield a healthy growth in profit. As the market in Shanghai gradually matures, it is likely that things will slow down a little, but the addition of Shenyang Palace 66 and Jinan Parc 66 will greatly help the top line. In time, the bottom line will follow.

**Ronnie C. Chan**

*Chairman*

Hong Kong, July 29, 2011